On the prowl: Bidding for Indian skies

Ashok Som

Indian born Arun Sarin, who took over as Vodafone's CEO on July 30, 2003, has done it again. With growth in mature markets slowing down, strategic intent of Vodafone had been growth in emerging markets. It made a series of acquisitions during 2006, in Romania, the Czech Republic, India and South Africa, culminating in the £2.6 billion purchase of Telsim, a Turkish mobile operator. But that was history. Vodafone had been created through acquisitions and subsequent successful integration throughout the globe. The rule in this industry was 'Hunt or Be Hunted'.

Vodafone is the leading cellular phone operator in the world. It has more than 160 million customers in 26 countries. It employs approximately 67,000 people globally and is headquartered in Newbury, England. It boasts a market capitalisation of $99 billion, making it the 11th most valuable company in the world.

Originally founded in 1984 as Racal Telecom, by 1987 it managed the largest mobile phone network in the world. It became an independent company in 1991 under the name Vodafone.

The accession of Christopher Gent as CEO in 1997 saw the shifting of Vodafone's strategy from organic growth to aggressive external growth, orchestrating its move towards globalisation. The contested 1999 takeover of Mannesmann doubled Vodafone's customer base and made it one of the 10 largest companies in the world in terms of market capitalisation.

Vodafone experienced a phase of consolidation and restructuring in 2002, with a reported 82.9 million customers. The company grew at a somewhat slower pace than in previous years, partly through internal growth, partly by acquisitions (acquiring Ireland's Eircell, for example, and increasing its stake in Spanish AirTel Movil). However, "slower growth" still meant that Vodafone had added approximately 20 million customers by the end of 2002.

There were no large-scale acquisitions in 2002 and 2003, but instead a host of smaller deals and partnership agreements. In 2004, Sarin entered into an auction for AT&T Wireless in the face of considerable hostility from analysts and shareholders, but withdrew when Cingular made a $41 billion in cash offer he did not think it was in Vodafone's interests to match. It clearly indicated that Vodafone had all but renounced its growth ambitions.

Sarin knew he could not afford to alienate Vodafone's shareholders by pursuing growth at all costs. However, Vodafone's current hold in the American market (the non-controlling 45% stake in Verizon Wireless but the only one in US) was not comforting either. The relationship with the other main shareholder Verizon, was quite strained, management had refused to adopt the single Vodafone brand, and had insisted on using the outdated American CDMA network standard instead of the group-wide GSM/UMTS standard.

> Vodafone's strategy has been consistent throughout its history. It was to leverage scale and scope benefits, reduce response time in market, and ensure effective delivery to customers

To appease his shareholders, Arun Sarin decided to exit the Japanese market by selling Vodafone's stake in Japan Telecom to Tokyo-based Softbank in a deal valued at $15.4 billion, confirming that after the sale the company would return $10.5 billion to its shareholders.

Vodafone's strategy has been consistent: to leverage scale and scope benefits, reduce response time in market, and ensure effective delivery to customers. This was achieved by acquiring national (operational) companies and giving them a mission of a 'challenger company' in each of the national markets. For example, Vodafone with approximately 43.9% SFR is a challenger to France Telecom, Vodafone UK is a challenger to British Telecom, and Vodafone Germany a challenger to Deutsch Telecom.

It is an entirely different strategy than traditional, bureaucratic national champions. Hence, the cultural alignment of people working for Vodafone was a key issue in sustaining this challenger and entrepreneurial mindset. Therefore, Vodafone gave autonomy to the local entity and reiterate that the local entity did not join a global company like IBM or HP. The local entity had to work in a matrix structure and keep alive the 'challenger mindset' on fixed line telephony and other incumbents, challenge the status quo every day and evolve by being local entrepreneurs.

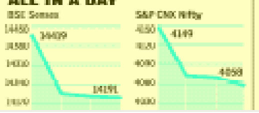
Sarin knew about his challenges and to find markets that would give him double digit growth and profitability. Vast untapped markets lay ahead with today's mobile penetration of about 1.7 billion, of which Vodafone has abut 3.5 million—in five years it shall be 2.5 billion, only half of the world's population!

In 2005 he acquired mobile operators MobiFon (Romania) and Oskar (Czech Republic)—just the first step in enlarging Vodafone's footprint in Russia and Eastern Europe. Not to mention China. The sheer size of the market was awe-inspiring. Vodafone's strategic partner, China Mobile, alone had more than 150 million customers, but Vodafone only had a minuscule 3.27% stake in the company. For Vodafone, this stake served as a strategic foothold in one of the largest and fastest growing markets of the world with relatively small-scale investment. The intent was to have an insider position, have a position of influence with the operator, with the Chinese government, have seat on the board, and have a regular dialogue to make China use the same technology as Vodafone so that Vodafone can benefit from the scale and scope economies once the market opens up for further investment.

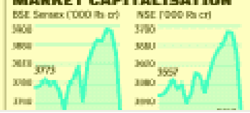
And there was his native country India, where he invested $1.5 billion to buy a 10% stake in Bharti Airtel, the largest mobile operator in the country. Today without being able to increase its stake in Bharti Airtel, Vodafone, true to its strategic intent, has bid for Hutch Essar. That was exactly why Sarin had split Vodafone into three new units, covering Europe, emerging markets and new business opportunities—an attempt to exploit changes in market and customer trends. He knew that Vodafone would need to concentrate on sales in emerging countries, reduce costs in more mature European markets and be more innovative to improve growth and profitability. Being the CEO of the largest mobile company was not easy. But this was exactly the reason why he was being paid £1.2 million a year as base salary. It was now up to him to shape Vodafone's future.

The author is associate professor and co-chair of the management department at ESSEC Business School, Paris

ALL IN A DAY



MARKET CAPITALISATION



MARKETCAP TOP 10

ADVANCES DECLINES

TURNOVER (Rs Cr)

MAJOR INDICES

BSE TOP GAINERS (A group)

BSE TOP LOSERS (A group)

NSE TOP GAINERS (CNX 500)

NSE TOP LOSERS (CNX 500)

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